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California Energy Commission Dockets Unit  
Attn: Docket No. 04 IEP 1K  
1516 Ninth Street, MS-4  
Sacramento, CA 95814-5512

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| <b>DOCKET</b>    |            |
| <b>04-IEP-1K</b> |            |
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Re: Docket No. 04 IEP 1K: Committee Draft Document Hearings

To Whom It Concerns:

PacifiCorp appreciates this opportunity to comment on the Committee Draft 2005 Integrated Energy Policy Report, (CEC-100-2005-007-CTD) released by the California Energy Commission (CEC) in September 2005 (Docket No. 04-IEP-1), through this hearing process. PacifiCorp is also offering comment on the policy proposal contained in Chairman Desmond's memorandum of September 22, 2005.

PacifiCorp is an electricity company with headquarters in Portland, Oregon. We conduct our retail electric utility business as Pacific Power and Utah Power and engage in power production and sales on a wholesale basis under the name PacifiCorp. The company owns or has interests in generating plants with an aggregate nameplate rating of 8,280 megawatts (MW) and plant net capability of 7,832 MW.

PacifiCorp serves approximately 1.6 million retail customers in service territories aggregating about 135,800 square miles in portions of six western states: Utah, Oregon, Wyoming, Washington, Idaho and California. The company serves approximately 43,000 customers in northern California, representing approximately 2% of its load.

PacifiCorp is committed to a diverse generation portfolio that includes natural gas, hydro, wind, geothermal and coal resources in addition to aggressive energy efficiency and demand response programs. In recognition of potential future regulation, PacifiCorp was one of the first utilities to adopt a quantitative estimate of potential future carbon dioxide (CO<sub>2</sub>) emissions costs through a "carbon adder" applied to new resources evaluated in its Integrated Resource Plan. This concept of applying a "carbon adder" was subsequently adopted by the CPUC for all California investor owned utilities.

PacifiCorp rigorously tracks its greenhouse gas (GHG) emissions and was the first utility based outside of California to join the California Climate Action Registry in order to provide transparent accounting of its emissions and offset portfolio. PacifiCorp has also been involved in the Western Governor's Association Clean and Diversified Energy Advisory Committee through participation in the Clean Coal and Wind Task Forces.

### **Clean Coal GHG Performance Standard**

PacifiCorp serves a growing service territory with ever increasing demand for reliable, low-cost power. PacifiCorp anticipates that meeting the electricity needs of its customers will require more generation capacity in addition to significant procurement of renewable resources, energy efficiency measures and demand response programs.

The draft Integrated Energy Policy Report (IEPR) contains a policy recommendation for a new utility GHG procurement standard as follows:

*“...the Energy Commission recommends that any GHG performance standard for utility procurement be set no lower than levels achieved by a new combined-cycle natural gas turbine. Additional consideration is needed before determining what role, if any, GHG emission offsets should play in complying with such a performance standard.” (Draft IEPR, p. 71)*

In addition, Chairman Desmond’s memorandum to the IEPR Committee of September 22, 2005, presents a more detailed GHG policy proposal:

- i. If and when a system of mandatory limits on greenhouse gas emissions consistent with the state’s GHG emission reduction targets becomes effective in California, through any combination of state, regional and federal action, decisions on new long-term commitments to fossil-fueled generation to meet the state’s needs should be made in compliance with that system, including any associated rules for trading emissions to minimize the costs of reductions. California is now exploring such options through the Governor’s Climate Action Team.*
- ii. Prior to the adoption of such limits, California should act to minimize potentially significant reliability and cost risks by avoiding more long-term investments (exceeding 3-5 years in duration) in baseload power plants with emissions per megawatt-hour of greenhouse gases and criteria air pollutants exceeding those of a combined cycle natural gas turbine. (Desmond, p. 6)*

**While PacifiCorp supports the principles behind the goal of this proposal, the company opposes these policy proposals and believes the adoption of such policy may have substantial negative customer impacts while ultimately failing to advance the commercialization of clean coal technology that will ultimately lead to advanced coal power systems capable of carbon capture and storage.** PacifiCorp’s reasons for these views are stated in depth below.

### **Clean Coal Technology Advancement**

PacifiCorp closely follows the development of clean coal technology and has participated in numerous discussions with technology vendors offering a range of clean coal technologies, including Integrated Gasification Combined Cycle (IGCC). PacifiCorp understands from discussions with these vendors and its involvement in the industry that clean coal technology incorporating CO<sub>2</sub> capture and storage is not available at this time and its development will require an evolution of many existing technologies.

As noted in the IEPR, most IGCC applications have used eastern bituminous fuels at plants operating at near sea level. Significant design changes and engineering effort will be required to develop and demonstrate IGCC using western coals at elevation. While this challenge will likely be met, it must be recognized that this development and the successful commercialization of the technology will take time. Once this significant goal is attained, the commercialization of carbon capture and sequestration technology and the development of an accompanying regulatory framework that sets standards for suitable storage formations and appropriate long-term monitoring and verification will remain to be devised. While limited opportunities to use CO<sub>2</sub> for enhanced oil recovery exist today, the technology, infrastructure and regulatory regime to support commercial scale long-term sequestration does not yet exist and will take considerable time to develop.

PacifiCorp supports the long-term goal of clean coal technology that includes carbon capture and storage. The Commission should create a policy that supports the incremental technology development necessary to progress towards that goal. The draft IEPR cites the research and development timeframes presented by the Electric Power Research Institute's CoalFleet for Tomorrow Initiative. The report indicates that California should focus on the third research and development timeframe cited by EPRI that could lead to the integration of CO<sub>2</sub> capture with advanced clean coal technology concepts for coal plants that come online after 2015-2020. Focusing solely on this timeframe will not support near-term commercialization of the necessary technologies.

The current policy proposal would preclude even the development of "sequestration ready" IGCC plants that have the capability to economically sequester CO<sub>2</sub> in the future when the technology and regulatory regime is mature. Any standard adopted by the Commission should allow for the development of clean coal technologies that afford the possibility of economically sequestering CO<sub>2</sub> emissions and/or represent progressive technology developments that are compatible with that goal.

An overly restrictive policy such as that proposed will likely not advance clean coal technology in the near term. In the end, this proposed policy may be counterproductive and result in the development of additional gas-fired generation that increases customer costs; presents unnecessary gas price risk; undermines fuel diversity; and locks in the CO<sub>2</sub> emissions from new gas-fired generation without the opportunity to economically sequester those emissions.

### **Greenhouse Gas Emission Offsets**

PacifiCorp believes that GHG offsets can play a significant and important role in addressing GHG emissions impacts and should be available as a mechanism to achieve any GHG performance standard for new fossil-fueled generation. Offsets help ensure that the most cost-effective GHG emission reductions are obtained, effectively adding more cost-effective reduction opportunities to the state's "carbon reduction curve" and avoiding sharp spikes in compliance costs induced by artificial limitations in control measures.

Just as important, offsets can generate significant environmental and social co-benefits to a variety of sectors, communities and nations. Offsets can advance sectoral learning of energy efficiency, industrial ecology and market development of clean technologies. California is in a strong position to cultivate a vigorous market in GHG-reduction projects in and outside of the

energy sector to benefit its ratepayers and citizens, while also facilitating market and institutional learning that can reduce GHGs regardless of the source.

While some opponents of offsets claim that they are ephemeral or, at worst, fraudulent, the global development of markets and associated standards for monitoring and verification negate such charges. Instead, new offset project standards draw upon well-developed methodologies that ensure that reductions are verified by third-party entities based on rigorous protocols established by expert bodies. Prominent expert organizations include the Clean Development Mechanism (CDM) Board under the Kyoto Protocol, the World Resources Institute, and, increasingly, the California Climate Action Registry.

California can play an important role in ensuring that offsets are real and verifiable - not by banning offsets from future policies, but by including offsets and requiring strong safeguards around their quality so that “fake” offsets so feared by critics are marginalized and “real” offsets are the norm in the U.S. market.

It is important to note that California’s neighbors have already established their support of offsets. The states of Washington and Oregon have each developed GHG performance standards (Chapter 173-407 WAC and ORS 469.503, respectively) for new electrical generation sources which require the mitigation of emissions and allow third parties to provide that mitigation through the development of offset projects. The Climate Trust is a leading organization investing funds generated by these siting policies. The Trust has proven that real, cost-effective, verifiable reductions are feasible in the Western U.S. and elsewhere. As a company that has provided funds to the Climate Trust for offset investment, PacifiCorp believes that verifiable offsets are best provided by organizations that have expertise in the development, monitoring and verification of carbon offset projects. While the Climate Trust is a great example, there are other organizations with the necessary expertise in obtaining high-quality offsets.

### **Transmission and Renewable Generation**

California’s Clean Coal procurement standard can serve to drive the development of clean coal technologies and much-needed transmission infrastructure that will improve overall system reliability and foster the development of significant renewable resources. The Rocky Mountain Area Transmission Study (RMATs), an initiative supported by numerous western states with substantial input from environmental groups, utilities and others, found that without low-cost, stable baseload coal-fired generation, transmission development necessary for renewable generation is unlikely to be built. PacifiCorp believes that the proposed GHG performance standard could threaten to delay or eliminate new transmission upgrades that require a combination of baseload resources such as coal and intermittent, low-emissions resources such as wind to provide low-cost and sustainable energy.

We urge the Commission to take into account new renewable energy supply that may be made possible by new transmission infrastructure or upgrades that accompany new coal development. As mentioned previously, clean coal technology using western fuels that affords the possibility of economic carbon capture and storage is not yet commercially available. In the interim, the Commission should adopt a policy that allows renewable energy, which may otherwise not be developed without transmission supported by new baseload generation, to be “packaged” with

new coal-fired generation to meet any GHG performance standard. Such a policy will spur cost-effective transmission upgrades in the West necessary for new renewables development and support a commonly-held goal of greater fuel diversity. In addition to speeding the development of substantial renewable resources, such a policy would help California satisfy its immediate need for reliable, low-cost power.

### **Consistency with Mandatory GHG Limits**

PacifiCorp agrees with Chairman Desmond's policy recommendation that California's long-term resource procurement policy should be consistent with whatever mandatory state, regional or federal GHG regulatory framework develops. Differing policies in this regard will increase the burden on regulated entities; complicate long-term planning; and result in increased overall compliance costs as different sectors are exposed to varying requirements.

### **Integrated Multistate Utilities**

While PacifiCorp seeks to be responsive to state policy direction, a procurement standard that effectively precludes coal-fired generation in the near term cannot be reconciled with the policy directions taken by other states comprising PacifiCorp's service territory. As mentioned above, PacifiCorp is a multistate utility serving six western states with a relatively small number of California customers. Under this structure, PacifiCorp does not procure power through a state-by-state approach. Rather, the company manages a portfolio of resources and California customers are assigned an apportioned cost of the integrated portfolio. PacifiCorp follows the agreed policy of its multiple states and evaluates new resources through the development of an Integrated Resource Plan that considers both carbon and natural gas price risk to develop a least-cost, least-risk resource portfolio. Whatever the final GHG procurement standard, the Commission must take into consideration the unique situation of utilities such as PacifiCorp that serve California customers through an integrated multistate system by allowing flexibility that can maintain consistency among the many states.

### **Conclusion**

To reiterate, PacifiCorp supports the principles that underlie this policy. However, the company opposes these specific policy proposals and believes the adoption of such policy may have substantial negative customer impacts. In addition, it is our belief that these policy proposals may ultimately fail to advance clean coal technology in a manner necessary for the development and commercialization of advanced clean coal technology incorporating carbon capture and storage. Finally, the proposed policy may hinder the transmission infrastructure upgrades necessary to develop substantial renewable energy resources.

PacifiCorp appreciates the opportunity to comment on the Draft 2005 IEPR and thanks the Commission for considering these comments. Should there be any questions related to these comments, please feel free to contact Bill Edmonds at (503) 813-5291.

Sincerely,



Andy MacRitchie  
Executive Vice President, PacifiCorp